

Master Document – Audit Program

Activity Code 21000		Price Proposal Under \$10Million
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Note: Portions of the audit that are covered in other assignments (e.g. incurred cost, Disclosure Statement, and internal control audits) should be referenced at the appropriate place in the audit steps.		
If this is a subcontract proposal, determine whether the prime contract pricing action has been awarded. When the contract instrument is fixed-price with no downward adjustment clause, the Government derives no benefit from either prime or subcontractor audits performed after negotiation of the prime contract. If the auditor becomes aware that a requested preaward audit pertains to a fixed-price contract already negotiated by a DoD or non-DoD agency, the auditor should advise the requestor that an audit is inappropriate unless a recapture clause has been included in the contract. In those instances in which the contracting officer insists on an audit even though the contract has been awarded on a fixed-price basis and does not contain a recapture clause, the effort should be accomplished as an audit for potential defective pricing in accordance with 10 USC 2306 (a).		
If the proposal is ONLY supported by sales or pricing information, and no cost information is involved, the auditor may not perform an examination on the proposal. STOP WORK NOW and confer with your supervisor (CAM 9-207a.). Discuss with the contracting officer alternative services that can be performed.		
Purpose		
To provide procedures for the audit of all price proposals under \$10 Million. The audit steps are intended to provide a logical sequence to the audit effort and to reflect a mutual understanding between the auditor and the supervisor as to the scope required to meet auditing standards and DCAA objectives for the current assignment. The audit steps in the program are intended as general guidance and should be modified as considered necessary to fit the current audit.		
Scope		
The following audit steps selected for completion or added as necessary represent a determination of requirements based on audit judgment, the supervisor's initial guidance, and specific contracting officer requirements.		
References		

Master Document – Audit Program

1. CAM Chapter 9, Audit of Cost Estimates and Price Proposals
2. CAM 7-1800, Joint Ventures, Teaming Arrangements, and Special Business Units (SBUs)

B-1	Preliminary Steps	WP Reference
	Version 5.0, dated April 2004	
	1. Review audit request for scope limitations or special requirements. Contact the requesting official before beginning the audit to ensure there is a clear understanding of the requestor's needs (CAM 9-103.1d(3)). If the proposal value is under the DFARS 215.404-2(a) threshold, i.e.,	
	<ul style="list-style-type: none"> • fixed price proposals exceeding the cost or pricing data threshold [CAM 14-103.2b]; 	
	<ul style="list-style-type: none"> • cost-type proposals exceeding the cost or pricing data threshold from offerors with significant estimating system deficiencies; or 	
	<ul style="list-style-type: none"> • cost-type proposals from offerors without significant estimating system deficiencies, even though the proposal exceeds \$10 million 	
	contact the requesting official to understand the circumstances for the audit request. Discuss the possibility of performing an alternative audit service, (i.e., specific cost information, specified cost element, agreed-upon procedure) (CAM 9-102.3).	
	2. Determine if the proposal is based on cost or pricing data or information other than cost or pricing data and document the source information for the determination. Cost or pricing data is data that will require certification in accordance with FAR 15.406-2. Information other than cost or pricing data represents information that is not required to be certified.	
	3. If the proposal is based on information other than cost or pricing data, determine the level of cost information submitted in support of the proposal (by reviewing the proposal, reviewing the RFP, discussing with the requesting official, or discussing with the contractor).	
	a. If in your opinion, the contracting officer has not required a level of cost information that would be a sufficient basis upon which to render an unqualified opinion, then an examination of the entire proposal may not actually be needed. Discuss with the requesting official the level of cost information submitted, the requested services, and alternative DCAA services, such as an application of	

Master Document – Audit Program

agreed-upon procedures, given the information other than cost or pricing data required. (CAM 9-207d.)	
b. If the requesting official continues to need an audit of the entire proposal, recommend that the requesting official request that the contractor submit additional cost information in support of the proposal. Also, advise the requesting official that once the auditor has begun fieldwork, if no additional data is forthcoming, then it is possible that the auditor will not have sufficient evidence upon which to base an unqualified opinion, and an adverse opinion may result.	
c. After discussion with the requesting official, STOP HERE and coordinate with your supervisor before proceeding. A customer decision to request an alternative type of service, i.e., audit of part of a proposal or application of agreed-upon procedures, will require establishment of a different type of assignment.	
4. Review the proposal package for adequacy (CAM 9-103.1b). Auditors may use the “Criteria for Adequate Contract Pricing Proposals” checklist to evaluate the adequacy of the contractor’s proposal. This checklist (Adequacy.doc) can be found in APPS under Other Audit Guidance. DO NOT EXPEND EFFORT ON THE EVALUATION OF INADEQUATELY PREPARED OR SUPPORTED PROPOSAL PACKAGES (CAM 9-205).	
5. Determine if a technical review is necessary (W/P B-3). If so, request assistance and coordinate with the contracting officer to determine whether the results will be available for incorporation into the audit (CAM 9-306).	
6. Determine if proposal will require access to classified data. Check DD Form 254. If classified information must be placed in the audit file, proceed as instructed by your supervisor or FAO security monitor.	
7. For solicitations and contracts, requiring contractor registration in the Central Contractor Registration (CCR) database (DFARS 252.204-7004 for DoD awards and NASA FAR Supplement 1804.7402 for NASA awards), verify that the contractor is registered in the CCR database. If the contractor is required to register in the CCR database, but does not have an active registration, note this fact in the audit report (CAM 9-102.2c).	
8. Internal Controls / Background Information:	
a. If the contractor is classified as “major” or if the contractor is a non-major and an ICAPS has been prepared review the Internal Control Audit Planning Summaries (ICAPS) to determine if any internal control deficiencies have been identified that impact this	

Master Document – Audit Program

audit (W/P B-2). Otherwise, evaluate the Internal Control Questionnaire (ICQ) and document the results (W/P B-2).	
b. If the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
(1) The audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(2) The procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
(3) The tests that will be performed in this audit that will be specifically designed to test the reliability of the computer-based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-304.4a.	
c. Evaluate the permanent files and prior audits to obtain background information and knowledge of prior audit findings. Document the extent of this evaluation, and its results, if any.	
9. Determine if contractor is CAS-covered. Determine if there are any noncompliances that would impact the audit scope.	
10. If the organization under audit is a joint venture, teaming arrangement, or contractor wholly-owned subsidiary or division, read CAM 7-1800.	
a. Determine the need for a CAS Disclosure Statement in accordance with CAM 7-1810.	
b. Determine the actual relationship between the contracting organizations using the criteria in CAM 7-1807.	
c. Determine if the contractor is proposing to and/or is accumulating and allocating costs consistent with the actual relationship, e.g., if the actual relationship more closely resembles that of a prime contractor/subcontractor then costs should be allocated consistent with this type of relationship.	
11. In planning and performing the examination, review the fraud risk indicators specific to forward pricing. The principal sources for the applicable fraud risk indicators are:	
<ul style="list-style-type: none"> Handbook on Fraud Indicators for Contract Auditors, Section III (IGDH 7600.3, APO March 31, 1993) located at www.dodig.osd.mil/PUBS/index.html, and 	

Master Document – Audit Program

<ul style="list-style-type: none"> • CAM Figure 4-7-3. 	
Document in working paper B, section 4 any identified fraud risk indicators and your response/actions to those identified risks (either individually or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B, section 4.	
12. Complete the initial risk assessment (W/P B) using the information obtained from completing steps 1-10 above. Based on this initial risk assessment and request for audit, establish the scope for the audit. Discuss the initial risk assessment and scope assessment with the supervisor and obtain approval. Considering your assessed level of risk, discuss with the contracting officer the appropriate level of service to be provided if it differs from the contracting officer's needs and the nature and type of cost information requested by the contracting officer in support of the proposal, i.e., audit of a part of the proposal or application of agreed-upon procedures. If there is no resolution with the contracting officer, the FLAs can provide assistance (CAM 9-103.1d. and 9-207d.).	
13. Conduct an entrance conference with responsible contractor personnel. Obtain:	
a. Required supporting data	
b. Actual and committed cost if contract has begun	
c. Written consent for release of report to prime contractor if subcontractor proposal.	

L-1	Proposed Direct Labor Costs	WP Reference
Version 5.0, dated April 2004		
1. Direct Labor Rates:		
[NOTE: If audit recommended rates for the proposed period are available for significant labor classifications, no rate evaluation is required. Perform the following audit steps, if appropriate.]		
a. If agreed to or FPRA rates exist, check for proper application.		
b. For significant labor classifications, compare proposed base labor rates to current actual rates and analyze major variances. Ensure that proposed rates are consistent with established/disclosed practices. Determine if labor is classified consistently between direct and indirect. (CAS 401/FAR 31.201-1 and 31.203(d) and		

Master Document – Audit Program

CAS 402/FAR 31.202 and 31.203(a))	
c. Evaluate escalation.	
d. Evaluate midpoint of effort.	
e. Additional audit steps – describe.	
2. Direct Labor Hours:	
[NOTE: Evaluate significant labor hours if (i) pertinent historical data is available and (ii) a technical review is not available or is considered inadequate.]	
a. If an evaluation of labor hours is required:	
(1) Evaluate basis of proposed hours	
(2) Evaluate pertinent historical data	
b. Considering audit risk , request specific technical assistance when required	
c. Additional audit steps – describe.	
3. Summarize audit results, including results of CAS and FAR compliance audit steps.	

M-1	Proposed Direct Material Costs	WP Reference
Version 5.0, dated April 2004		
[NOTE: Consider materiality of each type of proposed material (raw material, purchased parts, additive factors, etc.). If insignificant, no evaluation is necessary.]		
1. For each significant type of proposed material costs, perform the following steps if appropriate. Add audit steps if required.		
a. Pricing		
(1.)Evaluate the estimates for high dollar items using available sources (purchase order history, vendor quotes, inventory prices, DRI indices, decrement factors, pricing factors, etc.)		
(2.)If low value items are a significant portion of proposal material costs, sample and evaluate using the sources identified above.		
(3.)If statistical sampling is not used, explain why? (CAM 4-605a)		
(4.)If statistical sampling is used, design a sampling plan. Your plan should (i) clearly state the audit objective, (ii) describe the universe, (iii) describe sampling frame, (iv) reconcile universe with sampling frame, (v) select sampling approach, (vi)		

Master Document – Audit Program

develop reliability goals, (vii) establish sample size, (viii) describe sample selection method, and (ix) identify software program to evaluate the sample. (CAM Appendix B and EZ-QUANT program documentation).	
b. Requirements	
(1.)Evaluate material requirements if: (i) pertinent historical data is available, and (ii) a technical review is not available or is considered inadequate.	
(2.)If an evaluation of material requirements is necessary, trace a sample of the items tested in the price evaluation above to the appropriate source document.	
c. Additive Factors (scrap, rework, spoilage)	
(1.)If audit recommended factors are available, no factor evaluation is required.	
(2.)If audit recommended factors are not available, evaluate proposed factors using historical data.	
d. Additional audit steps – describe.	
2. Summarize audit results.	

N-1	Proposed Indirect Rates	WP Reference
Version 5.0, dated April 2004		
[NOTE: If audit recommended rates for the proposed period are available for significant indirect classifications, no rate evaluation is required.]		
1. Perform the following audit steps, if appropriate:		
a. If agreed to or FPRA rates exist, check for proper application.		
b. For significant indirect pools, compare proposed rates to prior year(s) rates and year-to-date experience and analyze major variances. Determine if the proposed rate structure is the same as the indirect rate structure used to accumulate actual costs. (CAS 410/FAR 31.201-1 and 31.203(d))		
c. Ensure that the proposed rate periods coincide with the contractor's fiscal years (CAS 406/FAR 31.203(e)). (See CAM 8-406.1 and 6-605 for exceptions to the fiscal period.)		
d. Determine that forecast considers volume changes and unallowable cost.		

Master Document – Audit Program

e. Evaluate the proposed COM rates and factors to determine whether the correct bases and rates have been used.	
f. Additional audit steps – describe.	
2. Summarize audit results, including results of CAS and FAR compliance audit steps.	

O-1	Proposed Other Direct Costs	WP Reference
Version 5.0, dated April 2004		
[NOTE: Consider materiality of individual ODC items (travel, reproduction services, consultants, etc.). If insignificant, no evaluation is necessary.]		
1. Pricing. Evaluate contractor estimates by selectively testing as appropriate.		
2. Requirements		
a. Evaluate ODC requirements if: (i) pertinent historical data is available, and (ii) a technical review is not available or is considered inadequate.		
b. If an evaluation is performed, assess contractor rationale for the requirement		
c. Additional audit steps – describe.		
3. Summarize audit results.		

S-1	Proposed Subcontracts and Interdivisional Work Orders	WP Reference
Version 5.0, dated April 2004		
Evaluate proposed subcontracts and interdivisional work orders using the following steps as appropriate. Add audit steps if required.		
1. Determine adequacy of contractor justification for competitive subcontracts.		
2. For sole source subcontracts:		
a. Evaluate contractor cost or price analyses of subcontract proposals.		
b. If a price analysis is required but it is inadequate or not available, consider historical decrement factors.		

Master Document – Audit Program

c. If a required cost analysis is inadequate or not available and the subcontract cannot be evaluated by other techniques (other current or historical data), an assist audit should be coordinated/requested.	
3. Evaluate significant make-or-buy changes.	
4. If interdivisional effort is significant, review contractor's supporting data. If the interdivisional effort cannot be evaluated by other techniques, request an assist audit.	
5. Additional audit steps – describe.	
6. Summarize audit results.	

A-1	Concluding Steps	WP Reference
Version 5.0, dated April 2004		
1.	If the anticipated report issuance date will extend beyond the previously established due date, ensure the report due date has been appropriately extended (CAM 10-103.1c).	
2.	Discuss audit findings with supervisor.	
3.	Conduct exit conference with contractor and document results.	
4.	Draft audit report incorporating results of technical review, if appropriate. Use the appropriate term “cost or pricing data” or “information other than cost or pricing data” in drafting the report.	
5.	Provide verbal results to requester, if required.	
6.	Complete administrative working papers.	
7.	Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a.	The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b.	Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	

Master Document – Audit Program

<p>c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.</p>	
<p>d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report” would be replaced by “MFF” or “MFR” in the naming convention as appropriate.</p>	
<p>e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.</p>	
<p>f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.</p>	
<p>g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.</p>	
<p>h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.</p>	

Master Document – Audit Program

i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : Sensitive audits include but are not limited to classified work, suspected irregular conduct, hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	